



**CYPRUS AMAX
MINERALS COMPANY**

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Gina L. Bulloch
Division Landman

August 20, 1998

Arizona State Land Department
1616 West Adams
Phoenix, Arizona 85007

Attention: Jim Gross, Lease Administrator

**RE: CYPRUS BAGDAD COPPER CORPORATION
COMMERCIAL LEASE NOS. 03-877 & 03-878**

Dear Jim:

Pursuant to our telephone conversation concerning the State's evaluation of the referenced Commercial Leases, Cyprus Bagdad Copper Corporation (CBCC) offers the following defense of its position that the acreage amounts currently contained in the long standing commercial leases referenced above should not be altered.

These decades-old commercial leases currently contain ten acres for each well, with the Urie Well and Contreras Well jointly utilizing Commercial Lease No. 03-877, and Warm Springs Wells jointly utilizing Commercial Lease 03-878. After extensive hydrologic study and the drilling of many dry holes, these productive water wells were drilled more than 30 years ago in fracture zones and faults cutting granitic bedrock. Water from these wells is obtained from localized, two-dimensional geologic structures that contain limited quantities of water. These wells are markedly different from traditional wells that pump water from extensive, three-dimensional aquifers in sedimentary basins. To pinpoint the locations of these few productive wells Cyprus Bagdad conducted extensive hydrologic investigations and costly drilling programs. To insure that Bagdad's vital community water supply is not compromised by hydrologic and environmental degradation, CBCC must be able to adequately maintain the areas around the wellheads. It appears that both CBCC's and the State's best interests are served by maintaining the existing commercial lease acreages around the wellheads, thereby protecting these important water resources.

Being more than 30 years old, these wells are increasingly susceptible to casing and pump failure, and before deterioration progresses to the point where production may be significantly reduced, Cyprus Bagdad needs to be able to redrill these wells. In order not to threaten the long term water supply for the town of Bagdad CBCC should retain sufficient lease size to step out and drill any necessary replacement wells within the same water bearing geologic structures.

The reduced acreages suggested by the State Land Department would significantly jeopardize Cyprus Bagdad's wells and future water supply, while diminishing revenues to the State Trust. An additional problem is that by reducing the commercial leases to less than the current ten acres there will be gaps between the wellhead leases and CBCC's existing powerline and waterline rights-of-way. These right-of-way gaps are unwarranted and potentially troublesome.

For the reasons outlined here, Cyprus Bagdad respectfully requests the State maintain the historic acreage of its Commercial Leases No. 03-877 and No. 03-878.

If you have questions, or would like to discuss this matter further, please call me at 303-643-5268. Thank you for your help in this matter.

Sincerely,



Gina Bulloch
Division Landman

Cc: Marcus Middleton
Phil Blacet